

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE COMMITTEE OF THE WHOLE
AND THE RETREAT MEETING AND REGULAR MEETING OF THE COMMISSIONERS
HELD ON MARCH 15 AND 16, 2004

Pursuant to the call of the Chairman and notice duly given, the meeting of the Committee of the Whole and the retreat meeting and regular meeting of the Commissioners of the Virginia Housing Development Authority were held on March 15 and 16, 2004, at the Martha Washington Inn, 150 West Main Street, Abingdon, Virginia.

COMMISSIONERS PRESENT:

Charles L. Krum, Jr., Chairman
Joan D. Gifford
Terri M. Ceaser
Jody M. Wagner
William C. Shelton
John P. McCann
Jack Loeb, Jr.

COMMISSIONERS ABSENT:

Jay Fisette, Vice Chairman
J. Cheryl J. Avery-Hargrove
Edward L. McCoy
Douglas R. Fahl

OTHERS PRESENT:

Susan F. Dewey, Executive Director
Donald L. Ritenour, Managing Director of Development
Thomas A. Dolce, Managing Director of Servicing and Compliance
Arthur N. Bowen, Managing Director of Finance and Administration
Ronald A. Reger, Managing Director of Information Services
Tammy N. Taylor, Managing Director of Human Resources
Russ E. Wyatt, General Auditor
Brenda K. Goodman, Managing Director of Public Policy
J. Judson McKellar, Jr., General Counsel
Michele G. Watson, Director of Homeownership Programs
John F. Hastings, Director of Multi-Family Development Programs
David R. Donahoe, Development Officer Manager
Brenda D. Brophy, Development Officer Manager
Tammy A. Tyler, Strategic Development Leader
Llewellyn C. Anderson, Business Liaison

Barry S. Merchant, Policy Analyst
Robert Halloran, Marketing Manager
Brian C. Matt, Public Relations Manager

The retreat meeting of the Commissioners was called to order at 9:00 a.m. on March 15, 2004. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting, except Commissioner Wagner who joined the meeting in progress as noted below and thereafter remained present during the meeting.

Ms. Dewey reviewed the schedule for the retreat meeting and the regular meeting of the Commissioners. Ms. Dewey then advised the Commissioners that, in the 2004 Session of the General Assembly, House Bill 187 requiring the Authority to adopt regulations reinstating the unrelated borrower restriction had been defeated in the House of Delegates and House Bill 825 authorizing the Authority to finance mixed income, mixed use developments had been passed unanimously by both the House of Delegate and the Senate. During this report, Commissioner Wagner joined the meeting. Ms. Dewey next advised the Commissioner as to the status of the federal legislation to eliminate the 10-year rule that requires repayments of principal on single family mortgage loans to be used to redeem tax exempt bonds commencing 10 years after the issuance of such bonds.

Mr. Ritenour presented a report on the Authority's single family programs, including the following matters: the relationship of the programs to the Authority's mission; the Authority's fiscal year 2004 strategic goals for the programs; the organization chart for the Homeownership Development Department; the sources of funds for the programs; allocations to the programs of funds in the Virginia Housing Fund for fiscal year 2004; loan production for the programs in fiscal year 2004 and 2005; loan production for the programs in comparison with other state housing finance agencies; and loan production for the programs by areas of the state. Ms. Watson then reported on the following with respect to the single family programs: the Authority's role as the state housing finance authority; a comparison of the programs of the Authority and Fannie Mae; the types of programs offered by the Authority; the profiles of the borrowers served by the programs; the services provided by the Authority in connection with the programs; the Authority's technological initiatives for the programs; the loan delivery process; the top ten lenders participating in the programs and their percentages of production; and a summary of the key points of this presentation. Mr. Ritenour next presented a report on the performance of the single family programs through the second quarter of fiscal year 2004, including the incomes of persons served, production for targeted households, ethnicities served, loan production by product type, and homeownership education class participants.

Following a recess for lunch, Mr. Ritenour presented a report on the Authority's multi-family programs, including the following matters: the relationship of the programs to the Authority's mission; the Authority's fiscal year 2004 strategic goals for the programs; the organization chart for the Multifamily Development Department; loan production for the programs in fiscal year 1999 through the second quarter of fiscal year 2004; allocations to the programs of funds in the Virginia Housing Fund for fiscal year 2004; the profiles of existing tenants; loan production for the programs in comparison with other state housing finance

agencies with respect to dollar amount of bond issues, unit production in 2002, developments and units in current portfolios, production of income targeted units, and production of newly constructed and rehabilitated units in 2002. Ms. Brophy and Mr. Donahoe then reported on the following with respect to the multi-family programs: description of the Authority's current programs; the Authority's preservation initiatives; the underwriting criteria and process; the construction loan draw process; examples of changes in loan terms between the Board Action Report and the mortgage loan commitment; an example of an application for a loan that was not financed; and a summary of the key points of this presentation. Mr. Hastings then presented a report on the performance of the multi-family programs through the second quarter of fiscal year 2004.

Ms. Dewey presented the organizational performance report for the second quarter of fiscal year 2004, including the following: a summary of the highlights; total production; income targeted production; production by housing markets; the lease-up rate under the Housing Choice Voucher Program; the status of the homeownership and rental housing loan servicing portfolios; the status of interest rates; the Authority's net revenue; and challenges and next steps for the Authority.

There being no further business, the retreat meeting was adjourned at 4:58 p.m.

The meeting of the Committee of the Whole was called to order at 9:00 a.m. on March 16, 2004. The Commissioners listed above as present at the meeting were present at that time and remained present throughout the meeting of the Committee.

Ms. Dewey presented an overview of the Authority's strategic plan, including the mission, vision, goals, strategic enablers, and means for achievement of the strategic plan. Mr. Ritenour then reviewed the proposed strategies and key objectives to accomplish the following goals for fiscal year 2005: Goal #1-Increase Service to Low Income Households, including the single family and multi-family production goals for fiscal year 2005; Goal #2- Increase Homeownership Opportunities for Minorities and New Immigrants, Goal #3- Support Local Revitalization Efforts; and Goal #4- Provide People with Disabilities with Affordable Housing Linked with Supportive Services. Mr. Bowen and Ms. Dewey then reported on the proposed strategies and key objectives to accomplish Goal #5- Strengthen VHDA's Long-Term Ability to Provide Affordable Housing in Virginia. Upon the conclusion of these reports, Commissioner McCann moved approval of the strategies and key objectives set forth in the Strategic Plan and FY 05 Objectives in the form attached hereto. This motion was seconded by Commissioner Gifford and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

There being no further business, the meeting of the Committee of the Whole was adjourned at 10:14 a.m.

The regular meeting of the Board of Commissioners was called to order at approximately 11:41 a.m. All of the Commissioners listed above as being present at the meeting were present at that time and remained present throughout the meeting.

No members of the public requested an opportunity to make any comments during the public comment period of the meeting.

Commissioner McCann moved approval of the minutes of the meeting of the Committee of the Whole and the regular meeting of the Commissioners held on January 20 and 21, 2004. This motion was seconded by Commissioner Wagner and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

Mr. Bowen presented a report on the Authority's unaudited financial statements for the period beginning July 1, 2003 and ending January 31, 2004.

Chairman Krum, on behalf of the Committee of the Whole, reported that the Committee had approved the strategies and key objectives set forth in the Strategic Plan and FY 05 Objectives in the form attached hereto.

Chairman Krum, on behalf of the Audit/Operations Committee, reported that the Committee discussed a proposed Total Compensation Policy presented by the staff and that the Commissioners recommended approval of VHDA's Total Compensation Policy in the form attached hereto. Commissioner Wagner then moved approval of VHDA's Total Compensation Policy in the form attached hereto. This motion was seconded by Commissioner Gifford and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting. Chairman Krum next reported that the Committee had received and discussed reports from the General Auditor on the status of the internal audit schedule and the outstanding audit recommendations and an audit report on the Fidelity Application System, formerly known as Alltel. Chairman Krum advised the Commissioners that the Committee had reviewed and recommended approval of the proposed Charter of the Internal Audit Division presented by the staff. Commissioner Wagner then moved approval of the Charter of the Internal Audit Division in the form attached hereto. This motion was seconded by Commissioner McCann and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting. Mr. McKellar advised the Commissioners as to the terms of a proposed series resolution authorizing the issuance of Commonwealth Mortgage Bonds. He reviewed the provisions which (i) authorized the sale and delivery of Commonwealth Mortgage Bonds in an aggregate amount not to exceed \$650 million to such purchasers or underwriters, at such purchase prices and on such terms and conditions as shall be set forth in or determined pursuant to one or more written determinations by an Authorized Officer of the Authority and in one or more purchase contracts, including notices of sale, in accordance with the series resolution; (ii) provided for the sale of the Bonds not later than May 31, 2005, (iii) established limitations and restrictions with respect to such written determinations; (iv) authorized the execution and delivery of purchase contracts and other necessary or appropriate agreements, instruments, documents and certificates; (v) specified that the portion of the Debt Service Reserve Fund Requirement allocable to each series of bonds to be issued pursuant to the series resolution shall be \$0 or such higher amount as may be set forth in or determined pursuant to the applicable written determinations; and (vi) authorized the distribution of one or more preliminary and final official statements in substantially the forms presented at the meeting. Mr. McKellar next advised the Commissioners as to the terms of the proposed bond limitations resolution setting forth the conditions and limitations for the issuance of Rental Housing Bonds. He reviewed the

provisions which (i) provided for the maximum principal amount of Rental Housing Bonds to be \$450 million, (ii) provided for the sale of the Bonds not later than May 31, 2005 and (iii) authorized the distribution of one or more preliminary and final official statements in substantially the form presented at the meeting. Commissioner McCann moved approval of the resolutions entitled "Series Resolution Authorizing the Issuance and Sale of Commonwealth Mortgage Bonds" and "Bond Limitations Resolution," both dated March 16, 2004, in the forms attached hereto. This motion was seconded by Commissioner Ceaser and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

Commissioner Gifford, on behalf of the Programs Committee, reported that the Committee had received and discussed staff reports on homeownership and multi-family loan production and that the Committee had recommended approval of the resolution approving the Authority's annual and 5-year plans for the Housing Choice Voucher Program. Commissioner McCann then moved approval of the resolution entitled "Resolution Approving the PHA Annual and Five-Year Plans for the Virginia Housing Development Authority for the Housing Choice Voucher Program," dated March 16, 2004, in the form attached hereto. This motion was seconded by Commissioner Ceaser and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting. Commissioner Gifford next reported that the Committee had received reports on servicing delinquencies and the status of the Housing Choice Voucher Program and had been advised by the staff that the Authority had not been awarded the contract for Section 8 Performance Based Contract Administration in Virginia. Commissioner Gifford further reported that the Committee had received and reviewed the list of applications for reservations of 2004 federal low-income housing tax credits and that the Committee had discussed the financing of mixed income, mixed use developments in fiscal year 2005 and had requested the staff to provide additional information about proposed financings and possible term and conditions relating to such financings.

Ms. Dewey presented her monthly report of operations in which she advised the Commissioners as to the following: the Authority's staff has sent to the Department of Housing and Community Development a proposed amendment to the Memorandum of Understanding that will permit the funding of grants and unsecured loans from the Commonwealth Priority Housing Fund; the Authority's staff is working with the Department of Housing and Community Development on a Memorandum of Understanding that will provide for the Authority to assist the Department of Housing and Community Development in the administration of the federal HOME program; the Virginia Foundation for Housing Preservation was recertified by the U.S. Department of the Treasury as a Community Development Financial Institution; the NCSHA Conference for state housing finance board members is scheduled for August 8-10, 2004; the Governor's Housing Conference is scheduled for November 15-17, 2004 in Norfolk, Virginia; and the Authority's radio and television advertising campaign will commence within the next month.

There being no further business, the meeting was adjourned at approximately 12:12 p.m.

Charles L. Krum, Jr.

J. Judson McKellar, Jr.

Chairman

Assistant Secretary

VIRGINIA HOUSING DEVELOPMENT AUTHORITY

MINUTES OF THE MEETING OF THE PROGRAMS COMMITTEE ON MARCH 16, 2004

Pursuant to the call of the Committee Chairman and notice duly given, the meeting of the Programs Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on March 16, 2004, at the Martha Washington Inn, 150 West Main Street, Abingdon, Virginia.

COMMITTEE MEMBERS PRESENT:

Joan D. Gifford, Committee Chairman
Terri M. Ceaser
William C. Shelton
John P. McCann
Jack Loeb, Jr.

COMMITTEE MEMBER ABSENT:

Jay Fisette

OTHERS PRESENT:

Donald L. Ritenour, Managing Director of Development
Thomas A. Dolce, Managing Director of Servicing and Compliance
J. Judson McKellar, Jr., General Counsel
John F. Hastings, Director of Multi-Family Development Programs
Michele G. Watson, Director of Homeownership Programs
Brenda K. Goodman, Managing Director of Public Policy

The meeting of the Committee was called to order by Commissioner Gifford at approximately 10:30 a.m. All of the members of the Committee listed above as being present at the meeting were present at that time and remained present throughout the meeting.

Commissioner McCann moved approval of the minutes of the meeting of the Committee held on January 21, 2004. This motion was seconded by Commissioner Shelton and was approved by the affirmative vote of each of the members of the Committee noted above as present at the meeting.

Mr. Ritenour presented reports on single family and multi-family loan production.

Mr. Dolce presented a resolution to approve the Authority's annual and 5-year plans for the Housing Choice Voucher Program, a report on multi-family and single family loan servicing delinquencies, and an update on the Housing Choice Voucher Program. Mr. Dolce next reported that the Authority had not been awarded the contract for Section 8 Performance Based Contract

Administration in Virginia. Upon the conclusion of these reports, Commissioner Shelton moved that the Committee recommend approval of the resolution entitled "Resolution Approving the PHA Annual and Five-Year Plans for the Virginia Housing Development Authority for the Housing Choice Voucher Program," dated March 16, 2004, in the form attached hereto. This motion was seconded by Commissioner McCann and was approved by the affirmative vote of each of the Commissioners noted above as present at the meeting.

Mr. Ritenour next distributed and reviewed a list of the applications received by the Authority for reservations of 2004 federal low-income housing tax credits.

The Committee then discussed the financing of mixed income, mixed use developments in fiscal year 2005 and requested the staff to provide additional information about proposed financings and possible term and conditions relating to such financings.

There being no further business, the meeting was adjourned at approximately 11:25 a.m.

Minutes of the Meeting of the Audit/Operations Committee Held on March 16, 2004

The meeting of the Audit/Operations Committee of the Board of Commissioners of the Virginia Housing Development Authority was held on March 16, 2004 at The Martha Washington Inn, 160 West Main Street, Abingdon, Virginia.

Committee Members Present Charles Krum
Jodie Wagner

Others Present Susan Dewey, Executive Director
Art Bowen, Managing Director of Finance & Administration
Ron A. Reger, Managing Director of Information Services
Tammy N. Taylor, Managing Director of Human Resources
Tammy A. Tyler, Strategic Development Leader
Russ Wyatt, General Auditor
Llewellyn Anderson, Strategic Business Planning Analyst

Meeting Called to Order The meeting was called to order at 10:38 a.m. All of the members of the Committee noted above as being present at the meeting were present at that time and remained present throughout the meeting.

Approval of Minutes Commissioner Wagner moved approval of the minutes of the meeting of the Audit/Operations Committee held on January 21, 2004. Commissioner Krum seconded this motion. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Compensation Tammy Taylor presented a draft of VHDA's Total Compensation Philosophy. After much discussion, Commissioner Wagner moved that the committee approve the compensation philosophy as presented. Commissioner Krum seconded this motion. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting. Tammy also recommended that for budgeting purposes, VHDA use the same merit pool as last year for the upcoming FY '05 budget. Both Commissioners concurred with this approach. No further action was required, as the Board does not approve the budget until July.

Internal Audit Update The General Auditor reported on the status of the audit schedule and outstanding audit recommendations that have not yet been fully addressed by management.

The General Auditor also reported that the regularly scheduled audit of the Fidelity Servicing System (formerly Alltel), has been completed and that the degree of

Continued on next page

Internal Audit Update (cont'd)

Compliance with existing practices and procedures and the quality of ongoing operation regarding the administration of this system were found to be satisfactory. Furthermore, the General Auditor indicated that operational deficiencies identified during the audit were considered of minor significance and management has agreed to take corrective action where appropriate. The General Auditor also reported that no adverse audit reports were issued in the time period covered by this report.

The General Auditor requested reaffirmation of the VHDA Audit Charter. Commissioner Wagner moved that the committee reaffirm the audit charter. Commissioner Krum seconded this motion. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Bond Resolutions

Art Bowen presented a memorandum and a series resolution for the sale and issuance of single family bonds. A motion to recommend approval by the Board of the resolution entitled "Series Resolution Authorizing the Issuance and Sale of Commonwealth Mortgage Bonds" was made by Commissioner Wagner and seconded by Commissioner Krum. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting. Art then presented a memorandum and a resolution entitled "Bond Limitations Resolution for Multifamily Bonds". Commissioner Wagner moved for approval of this resolution. Commissioner Krum seconded this motion. This motion was approved by the affirmative vote of each of the Commissioners then present at the meeting.

Salient Features

Art Bowen called Commissioners' attention to the final section of the Audit/Operations section of the Board notebook containing two salient features memoranda, Commonwealth Mortgage Bonds, 2004 Series B Pass-Through Certificates and Rental Housing Bonds, 2004 Series C-Taxable, D-AMT and E, for upcoming single family and multifamily bond issues. There were no questions or comments from Commissioners.

Adjournment

There being no further business, Commissioner Krum adjourned the meeting at 11:37 a.m.

Arthur N. Bowen, III
Managing Director of Finance &
Administration

Douglas R. Fahl
Chairman